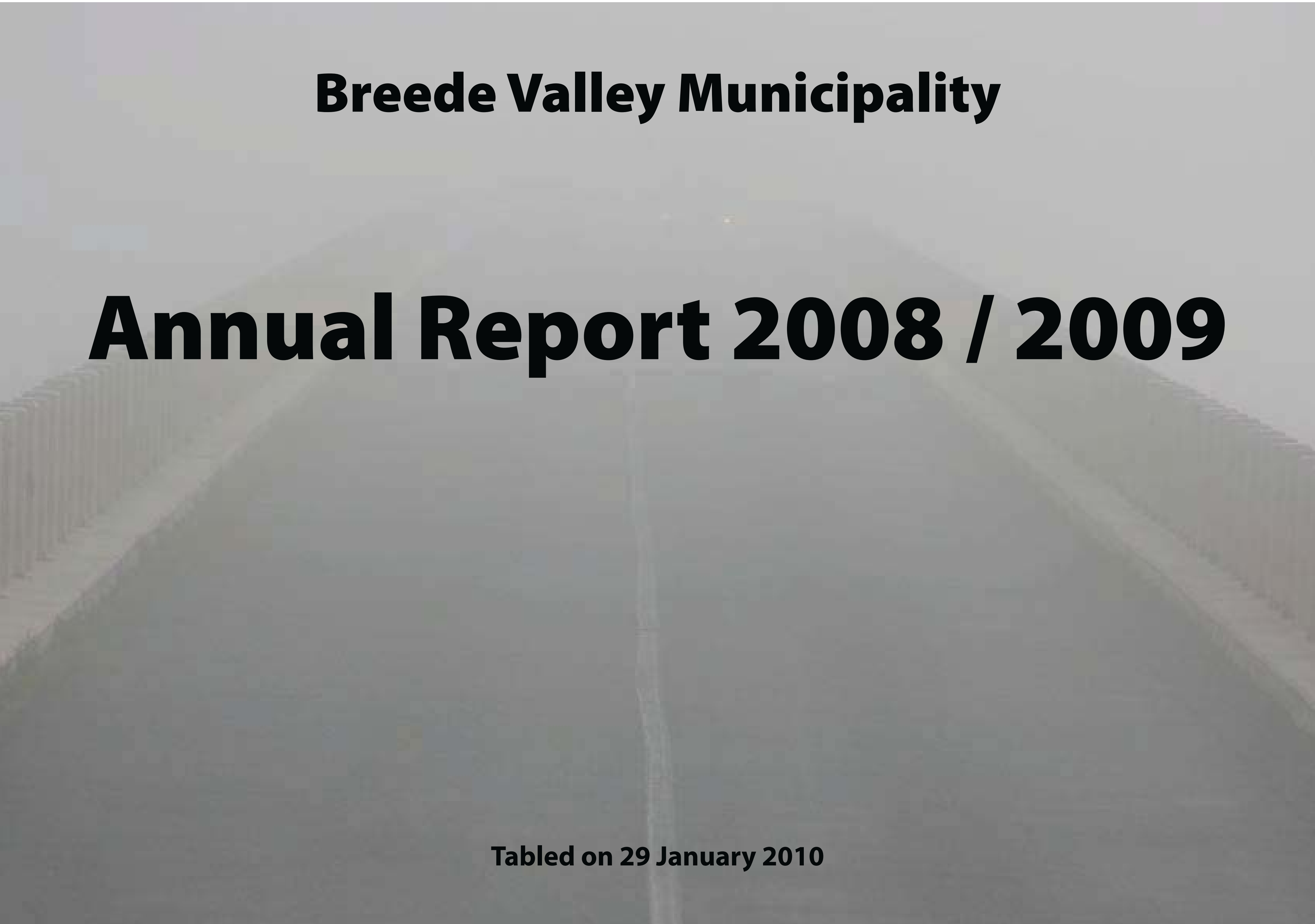
Breede Valley Municipality

Annual Report 2008 / 2009



Tabled on 29 January 2010

GLOSSARY

AFS	Annual Financial Statements
AG	Auditor-General
ANC	African National Congress
ASB	Accounting Standards Board
AUSL	Aerobic Upflow Sludge Lagoons
BO	Breedevallei Onafhanklik
BVM	Breede Valley Municipality
CAA	Civil Aviation Authority
CDIB	Construction Development Industry Board
CDW	Community Development Worker
CWDM	Cape Winelands District Municipality
CMIP	Consolidated Municipal Infrastructure Programme
CMU	Communication and Marketing Unit
CRR	Capital Replacement Reserve
DA	Democratic Alliance
DBSA	Development Bank of Southern Africa
DEADP	Department of Environmental Affairs & Development Planning
DLA	Department of Land Affairs
DLTC & VTS	Driving License Testing Centre & Vehicle Testing Station
DME	Department of Minerals & Energy
DoRA	Division of Revenue Act
DOTS	Direct Observed Treatment Shortcourse
EIA	Environmental Impact Assessments
FAMSA	Family and Marriage Society of South Africa
GAAP	Generally Accepted Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Practice
ID	Independent Democrats
IDP	Integrated Development Plan
IDT	Independent Development Trust
IMCI	Integrated Management of Childhood Illness
IMFO	Institute for Municipal Finance Officers
INEP	Integrated National Electricity Programme
KPA's	Key Perfomance Areas
LED	Local Economic Development
LLF	Local Labour Forum
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MPC	Multi Purpose Centre
MSA	Municipal Systems Act
NASAWW	National South African Workers Welfare
NER/NERSA	National Electricity Regulator South Africa
NGDP	National Growth & Development Programme
NKPI	National Key Performance Indicators
NQF	National Qualification Framework
NRS	National Regulator Specification
OHS Act	Occupational Health & Safety Act
OPMS	Organisational Performance Management System
PAA	Public Audit Act
PGD's	Provincial Growth & Developments
PAWC	Provincial Administration Western Cape
PGWC	Provincial Government Western Cape
PMS	Performance Management System
PMU	Project Management Unit
PMTCT	Prevention of Mother to Child Transmission
RoD	Record of Decision
SALGA	South African Local Government Association
SANS	South African National Standard
SETA	Sectoral Education & Training Authority
VCT	Volunteer Counselling & Testing
VF+	Vryheidsfront Plus
WCED	Western Cape Education Department
WWTW	Worcester Wastewater Treatment Works

OVERSIGHT REPORT FOR THE 2008/2009 FINANCIAL YEAR,

as discussed by the Oversight Committee at meetings held on 17 and 26 March 2010, 1 April 2010 and the final meeting held on 19 April 2010;

- Council, having fully considered the Annual Report of Breede Valley Municipality for 2008 / 2009 and representation thereon, adopts the Oversight Report presented by the Oversight Committee for inclusion in the Annual Report ;
- Council, noting that there was no comment from or input by the public after the required response period had elapsed and further noting the comments and recommendations made by the Oversight Committee, finally approves the Annual Report of Breede Valley Municipality for 2008 / 2009 without reservation;
- Council adopts the Annual Report of Breede Valley Municipality for 2008 / 2009 and resolves that it be made public in accordance with Section 129 (3) of the Municipal Finance Management Act, 56 of 2003 and be submitted to the Provincial Legislature in accordance with Section 132 (2) of the Municipal Finance Management Act, 56 of 2003; and
- Council considers and accepts the Concluding Recommendations made by the Committee for inclusion in the approved Oversight Report.

OVERSIGHT REPORT 2008/2009

Establishment and Context of Breede Valley Municipality (hereafter referred to as BVM)

BVM was established in the year 2000 and accordingly categorised as a Category B municipality in terms of the Municipal Structures Act, Act 117 of 1998, Chapter 1 and Subsection 3. In accordance with its constitutional mandate, BVM focuses on the provision of basic services to all residents within its area of jurisdiction including the following towns; Worcester, Rawsonville, De Doorns and Touws River. BVM stretches over an area of 2 995 km2, bordered by Witzenberg Local Municipality to the North West, Langeberg and Theewaterskloof Local Municipalities to the south and Drakenstein Local Municipality on the far western side.

As recorded and documented during the Local Government Socio-Economic Profile (SEP-LG) 2006, BVM represents the second largest population in the Cape Winelands District and the third largest contributor to the District's economy.

BVM is faced with tremendous developmental challenges which implicate both budgetary and trade-off decisions. Urbanisation and immigration from rural agricultural settings continues to strain BVM's ability to provide basic services and infra-structure in particular over the last 10 years. Since its establishment BVM has expanded by approximately 17 000 households with the larger concentration of households centred in our ever-expanding informal settlement areas. BVM's ability to deliver basic services between 1996 and 2001 reduced drastically in respect of the following four basic service categories: water, energy, refuse removal and sanitation. A constant increase in demand for housing and BVM's inability to match such demand within a reasonable timeframe, presents a continuing potential threat to both growth and institutional stability.

The individual requirements and challenges for BVM are now unpacked in terms of the KPA's as articulated by the National Strategic Agenda for Local Government.

Basic services and infra-structure

The total requirement for infrastructure has been estimated at a cost of R1, 8 billion covering bulk water, sanitation, electricity and roads amongst others and a full detailed report is included in the Annual Report.

The Committee is particularly mindful of backlogs in every service delivery area. This is compounded by urbanisation and immigration and further stressed by serious financial resource constraints. Amidst an ever increasing housing backlog, infrastructure upgrade for bulk services is in progress to meet existing housing, industrial and other development needs to support economic stimulation. With this infrastructure upgrade structured over a 3-year period it becomes imperative to communicate the institutional challenges being experienced by BVM with the broader community of Breede Valley.

Local Economic Development (LED)

BVM's committed financial resources inhibit its ability to enhance local economic development interventions and the pursuit of a broadened economic base. The Committee acknowledges Council's adoption of the Local Economic Development (LED) strategy and is mindful of administration constraints which currently hamper innovation for LED stimulation.

Capacity constraints within the LED section are in the process of being addressed via the human resources strategy. Both provincial and national government departments have been approached to assist in strengthening BVM's LED approach with programmes, or via the establishment of an agency to deal with economic development in collaboration with relevant and role-playing sectors.

For local economic development to thrive, the primary role of BVM remains the creation of an enabling economic environment.

Financial Viability and Sustainability

A full report regarding BVM's liquidity, outstanding debts, and financial ratios is included in the annual report which best explains the critical lack of financial resources given BVM's extensive obligations.

The Committee acknowledges the organisation's 95% debt collection rate achievement, currently far exceeding the norm of 80% collection rate (as currently achieved by other local municipalities) and encourages the maintenance of this benchmark. The Committee further emphasised that the developed action plans, as compiled in different revenue workshops by the Financial Services Directorate must be implemented and sustained in order to further enhance debt collection. The Committee notes that the strict implementation of the Credit Control policy lead to improved debt recovery results and emphasised that sustained performance was necessary for continued improvement.

The Committee also encourages efforts by the administration for the next financial year to improve budgetary control and expenditure management.

The Committee recommends continuous communication by Financial Services of its intent to vigilantly implement Council's debt recovery policy with all stakeholders with

whom/which the institution conducts business. The positive actions of Financial Services in the area of credit control are commended. The global recession which moved BVM to follow examples set by other differing institutions in being more lenient, where genuinely deserved, but still applying the policy stringently, is noted. The elimination of legal intervention for debt recovery lessens financial strain on BVM's local revenue base. The continuous communication and education of residents must be maintained to develop and broaden a healthy revenue base.

The Committee appreciates and notes cost saving initiatives, which put affordability before personal preferences, in all areas of Subsistence and Travel.

The Ministry for Cooperative Governance and Traditional Affairs (COGTA) recently introduced the Turn- around Strategy (TAS) to enhance service delivery in Municipalities across the country. This will be articulated by BVM in the area of financial management and credit control with particular emphasis on debt recovery to the amount of R40m which remains outstanding. To improve BVM's cash reserves and cash flow, greater consideration and perspective needs to be applied in respect of spending public money and applying public resources so that better value is provided for services rendered.

Good Governance and Institutional Transformation

The development of systems and policies to support good governance should become an area of focus for senior management in the administration to stimulate effectiveness and efficiency. The face of the administration represents the institutional approach to service delivery; hence the focus should be on systems that ensure good and proper use of municipal resources and a more responsible and responsive administration.

The transformation of BVM must be directed towards delivering more effectively and efficiently in relation to the past. Regular reporting and feedback to the public in general or in response to specific enquiries should become the norm of the administration.

Council's Risk Assessment Process is three years old and needs to be reviewed. The Municipal Manager confirmed that the review process will begin in May 2010. The Committee recommends that the Oversight Committee be included in the review process and future monitoring.

Human Resources

The current cost implication for personnel in the rendering of services locally is significantly higher than most other municipalities due to an inherited salary and wage structure which will only be eradicated over time. An integrated Performance Management System (PMS) to measure both success and weakness accordingly in order to apply corrective measures is being implemented for BVM. The installation of a working PMS system, tested in municipalities across the Western Cape will enhance the ability to work smarter rather than harder. The Committee was encouraged to hear that with the new system comes reward, and simultaneously realises that this reward also has a cost implication. The principle of only filling vacancies in areas where genuine need exists to increase productivity and capacity was reiterated and unanimously endorsed.

The Committee listed the following concerns for managerial attention:

- access control requires management intervention as the movement of staff is not properly controlled;
- the more than 500 vacancies on our current staff establishment;
- saving costs must become part of the professional character of each employee, e.g. cutting unnecessary print on glossy paper, focusing more on the content of documents than the appearance thereof;
- the BVM telephone/communication system requires stricter support and control;
- cost implication for vehicle maintenance is also extremely high based on the average fleet age and lack of discipline by vehicle users. The management of the vehicle tracking unit system must be complimented by other systems to support good vehicle/fleet management, as this will prolong the life-span of vehicles; and
- security at all municipal buildings remains a concern which requires immediate management intervention. Offices and all other municipal facilities need to be properly safeguarded to protect municipal assets at all times.

The Committee acknowledges the leadership and management challenges/problems experienced mainly at operational levels across the institution. Directors are encouraged to take the lead and be more firm in ensuring that all policies, systems and processes for which they are responsible are clearly understood by all and implemented across the board.

The Committee suggests that policy in respect of the differently abled community, of which the visually and hearing impaired have long been part of Worcester's history, be reviewed and that all aspects of persons with disabilities be taken into account.

Functioning of Council, MayCo and Portfolio Committees

Clearly the current system of governance has to be reviewed. It is evident at every Council meeting that councillors that are not part of the governing coalition feel totally removed from the governance of BVM.

This may very well be a constitutional problem since the said councillors cannot perform the functions they were elected to perform.

It is therefore recommended that the committee meeting system adopted by Council on 30 January 2008 (Council resolution C8/2008) be fully implemented to ensure that the concept of "portfolio committees" (as contemplated by the Municipal Systems Act and Structures Act) becomes effective thereby affording all councillors the opportunity to participate in the governance of BVM and enabling them to fulfil their functions more efficiently.

Deployment of CDW's and the functioning of Ward Committees

The relationship and management of the CDW programme continues to present a challenge given the primary employment relationship vesting with the Provincial Government of the Western Cape. BVM is currently in discussions with PGWC to conclude on the future of the CDW program in BVM's area of jurisdiction, in particular, complete administrative control over the program. The signing of a MOU with PGWC has been undersigned with an addendum (focusing on administrative control of personnel) included by BVM.

By the same token BVM also needs to acknowledge that the system of ward committees requires full implementation of the policy and systemic support to stimulate optimal community participation in the affairs of BVM. The ward committee policy requires review given legislative amendments as recent as 2009. More discussion is required in the area of the accountability framework in terms of elections/appointment; credentials and how the work and participation is coordinated.

Public Participation

Whilst major in-roads have been made with BVM's public participation model; again more can be done to improve this. A major question for instance is: why have meetings of Council at Nekkies, yet at the same time the communities are expected to participate. Unless Council adopts a transport system for communities to attend meetings, in the interim, all meetings should be held in the Town Hall or venues closer to the communities.

The Committee recommends that long term planning to utilise open spaces between the existing municipal offices and the Town Hall to create bigger and better facilities be initiated.

The rotation of council meetings across the Breede Valley should be investigated to allow for broader participation in the affairs of council.

More innovative forms of public participation should also be initiated and the administration should provide different models for consideration.

CONCLUDING RECOMMENDATION

The Committee concluded its deliberations based on the mandate provided to it by Council, specific to the Annual Report and Auditor General's Report.

The Committee notes the comment included in the report titled "Comments of Management and the Audit Committee on the Report of the Auditor General" included in the Annual Report and more specifically the recurring matters as well as the non-compliance issues raised therein. The Committee is of the opinion that management should resolve the matters so raised by the Auditor General.

Concerns have been listed and particular recommendations were made to the administration to enhance more effective control of all municipal resources.

In order to monitor whether the concerns have been addressed and the recommendations have been implemented, the Committee recommends that the Oversight Committee continues to meet as an ad-hoc committee of Council.

FINANCE

Annual Report 2008 / 2009

Breede Valley Municipality

Financial Statements for the year ended 30 June 2009 (2008 Restated)

General Information

Legal form of entity	Municipality (MFMA)
Mayoral committee	
Executive Mayor	C. Ntsomi
Councillors	T.J. Pedro (Deputy Mayor) J.J. Januarie (Speaker) S.B. Mfutwana L. Richards G.L. Daames A. Gordon C. Ismail C.F. Wilskut
Grading of local authority	Councillors Grade 4 Personnel Grade 10
Chief Finance Officer (CFO)	D. McThomas
Accounting Officer	A.A. Paulse
Registered office	Civic Centre 30 Baring Street Worcester 6850
Business address	Civic Centre 30 Baring Street Worcester 6850
Postal address	Private Bag X3046 Worcester 6849
Bankers	ABSA Bank Limited
Auditors	Auditor-General of South Africa

Breede Valley Municipality

Financial Statements for the year ended 30 June 2009

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The reports and statements set out below, comprise of the financial statements presented to the Auditor-General of South Africa:

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are responsible for reporting on the fair presentation of the financial statements.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP), issued by the Accounting Standards Board in accordance with Section 122 (3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or financial statements in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or financial statements.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2010 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The external auditors report is presented on page 11.

The accounting officer certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for defeit of office, if any, as disclosed in note 29 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Accounting Officer

14 September 2009

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE BREEDE VALLEY MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Breede Valley Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 16 (Statement of Financial Position) to 51.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and, the Division of Revenue Act, 2008 (Act No. 2 of 2008) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3)(a) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Breede Valley Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Breede Valley Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matter

Without qualifying my opinion I draw attention to the following matters:

Significant uncertainties

9. With reference to note 40 to the financial statements, the municipality is the defendant in a number of lawsuits, two of which have been referred for arbitration. The ultimate outcome of the matters cannot currently be determined and no provision for any liability that may result has been made in the financial statements.

Material losses

10. As disclosed in appendix F (unaudited) to the financial statements, water distribution losses of 30.64% (R14 879 668) were incurred during the 2008 09 financial year.

Irregular expenditure

11. As disclosed in note 49 to the financial statements, irregular expenditure was incurred in the current year to the amount of R4 753 351 (2007-08: R3 054 501), as a result of deviations from the supply chain management regulations relating to a multi-year contract concluded in during 2006-07. The investigation of this irregularity is still ongoing.

Restatement of corresponding figures

12. As disclosed in notes 42 and 43 to the financial statements, the corresponding figures for the year ended 30 June 2008 have been restated as a result of errors discovered during the 2008-09 financial year in the financial statements of the Breede Valley Municipality at, and for the year ending, 30 June 2008 and also as a result of the change in accounting policies arising from the implementation of Standards of GRAP.

Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Material inconsistencies in information included in the annual report

13. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

14. The supplementary information set out on pages 52 to 78 (appendices C to H) does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

15. The following instances of non-compliance have been identified during the course of the audit:

    Municipal Finance Management Act (MFMA)

    - Supporting documentation to facilitate the proper management of grants-in-aid to organisations and bodies outside government did not meet the prescripts, as set out in section 67 of the MFMA.

    Supply Chain Management Regulations

    - Paragraph 6 of the Supply Chain Management Regulations requires the accounting officer to submit reports as to the progress and implementation of supply chain management to the council and/or mayor, as well as making these reports public in terms of section 21A of the Municipal Systems Act, 2000. These reports could not be furnished for audit purposes to confirm whether the above regulation was complied with.

Governance framework

16. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance requirements addressed below:

Key governance responsibilities

17. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	■	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		■
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	■	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.		■
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	■	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	•The municipality had an audit committee in operation throughout the financial year.	■	
	•The audit committee operates in accordance with approved, written terms of reference.		■
	•The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		■
7.	Internal audit		
	•The municipality had an internal audit function in operation throughout the financial year.	■	
	•The internal audit function operates in terms of an approved internal audit plan.		■
	•The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		■
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		■
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		■
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	■	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.		■
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	■	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		■
14.	SCOPA resolutions have been substantially implemented.	Not applicable	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		■
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		■
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Breede Valley Municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68 of the MFMA.		■

- Ongoing monitoring by the finance department is not effective to assess the effectiveness of internal control over financial reporting.

- Management did not adequately identify risks relevant to accurate and complete financial reporting and actions were not taken to address such risks. These risks should be identified by way of a formal risk assessment process relating to the achievement of financial reporting objectives and/or by implementing a formal and regularly monitored financial management improvement plan, which includes actions to address not only the material findings arising from the prior year's external audit, but also the control and compliance deficiencies identified in that audit. The risk assessment process should inform the agendas of the audit committee and internal audit unit, which are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability over financial reporting.

19. The next few years will pose greater challenges for the municipality with the implementation of additional, approved Standards of GRAP. In order to deal with the prevalence of material misstatements in financial statements that have to be corrected during the audit, the municipality needs to:

- develop a strategy to improve financial management controls relating to compliance with accounting standards and reconciliation and maintenance of underlying accounting records, in order to produce accurate and complete financial statements

- produce monthly financial accounts for review by management

- subject the financial statements to a quality review before they are submitted for auditing, while the internal audit unit and audit committee can assist with evaluating the adequacy of the design and implementation of controls around the preparation of the financial statements.

20. The finance department needs to improve its planning to ensure that the legislative deadline for the submission of financial statements for audit purposes is achieved.

21. The audit committee and internal audit unit, which are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability over financial reporting, need to be strengthened through support from the leadership of the municipality to fulfill their responsibilities in accordance with the MFMA.

22. Actions implemented by management to address the prior year audit findings during the 2008-09 financial year proved to be less effective than anticipated, as a number of those findings recurred.

23. The completion of the development and implementation of a performance management system that facilitates the preparation of a performance report that is accurate and complete and available for internal and external review in a timely manner, requires urgent attention from the accounting officer with the support of internal audit and the audit committee to ensure compliance with section 40 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

24. I have reviewed the performance information as set out on pages 88 to 201.

The accounting officer's responsibility for the performance information

25. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

26. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008 and section 45 of the MSA.

27. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

28. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

29. The accounting officer did not ensure that the Breede Valley Municipality has and maintains and effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the municipality's processes of performance planning, management, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 40 of the MSA.

30. The Breede Valley Municipality did not appoint a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

31. The Breede Valley Municipality did not develop and implement mechanisms, systems and processes for auditing of the municipality's performance measurement system and whether the system complied with the requirements of the MSA.

No reporting of performance information

32. The annual performance report of the municipality, as required by section 121(3)(c) of the MFMA, was not prepared by the municipality in terms of section 46 of the MSA.

APPRECIATION

33. The assistance rendered by the staff of the Breede Valley Municipality during the audit is sincerely appreciated.

Auditor-General

Cape Town

13 August 2010

AUDITOR-GENERAL

SOUTH AFRICA

Auditing to build public confidence

Breede Valley Municipality

Financial Statements for the year ended 30 June 2009 (2008 Restated)

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2009.

1. Review of activities

Main business and operations

Breede Valley Municipality is situated in the Western Cape Province, 120 km north-east of Cape Town. Included in its boundaries are the of Worcester, Rawsonville, De Doorns and Touwsriver and surrounding rural areas. It covers 2,995 sq km and is home to around 156,000 people.

The municipality is set between three mountain ranges, incorporating some of the most valuable and fertile agricultural land in the country. The area is endowed with a diverse cultural history, regional accessibility and unique natural beauty that attract a great number of tourists.

The operating results for the year were pleasing for the following reasons. The financial position of the municipality is described to be sound, with an accumulated surplus of R1 178 198 276 at year-end.

Net surplus of the municipality was R 36,189,182 (2008: deficit R 46,117,870).

2. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The financial statements has been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Borrowing limitations

The accounting officer may exercise all the powers of the municipality to borrow money, as he considers appropriate.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
A.A. Paulse	South African

7. Auditors

Auditor-General of South Africa will continue in office for the next financial period.

Breede Valley Municipality

Financial Statements for the year ended 30 June 2009 (2008 Restated)

Statement of Financial Position

Figures in Rands	Note(s)	2009	2008 Restated
Assets			
Current Assets			
Inventories	8	5,390,596	4,052,253
Other receivables from non-exchange transactions	9	14,996,740	8,797,091
VAT Receivables	10	948,092	-
Consumer debtors from exchange and non-exchange transactions	11	45,577,797	45,197,101
Current portion of long-term debtors	7	1,473,158	370,495
Investments	6	65,000,000	93,000,000
Cash and cash equivalents	12	46,234,031	24,508,270
		179,620,414	**175,925,210**
Non-Current Assets			
Investment property	3	100,000	100,000
Property, plant and equipment	4	1,305,450,649	1,279,055,656
Intangible assets	5	296,889	113,746
Investments	6	-	20,626,850
Long term receivables	7	7,185,069	11,745,182
		1,313,032,607	**1,311,641,434**
Total Assets		**1,492,653,021**	**1,487,566,644**
Liabilities			
Current Liabilities			
Current portion of long term liabilities	14	17,704,653	40,367,034
Trade and other payables	18	44,552,325	38,167,038
VAT payable		-	514,347
Consumer deposits	19	2,667,491	2,596,432
Unspent conditional Grants and receipts	15	9,897,620	17,444,548
		74,822,089	**99,089,399**
Non-Current Liabilities			
Long term liabilities	14	153,406,704	171,111,357
Employee benefit obligation	16	78,304,149	68,071,075
		231,710,853	**239,182,432**
Total Liabilities		**306,532,942**	**338,271,831**
Net Assets		**1,186,120,079**	**1,149,294,813**
Net Assets			
Reserves			
Housing development fund	13	7,921,803	8,290,284
Accumulated surplus		1,178,198,276	1,141,004,529
Total Net Assets		**1,186,120,079**	**1,149,294,813**

Breede Valley Municipality

Financial Statements for the year ended 30 June 2009 (2008 Restated)

Statement of Financial Performance

Figures in Rands	Note(s)	2009	2008 Restated
Revenue			
Service charges	21	235,718,125	209,379,561
Rental income	25	8,845,454	8,149,760
Income from agency services		3,423,044	3,383,082
Property rates	20	71,273,023	72,176,889
Property rates - penalties imposed and collection		1,066,179	1,170,917
Fines		9,134,494	9,619,314
Licences and permits		2,055,830	2,171,210
Government grants	22	136,846,522	46,528,744
Revenue foregone		(35,502,456)	(38,201,125)
Other income	26	6,583,245	13,871,815
Finance income	23	19,977,285	19,081,670
Total Revenue		**462,440,775**	**338,331,837**
Expenditure			
Employee related costs	28	(110,527,409)	(93,975,132)
Remuneration of councillors	29	(8,954,260)	(8,012,081)
Bad debts	30	(13,176,745)	(10,452,398)
Depreciation and amortisation	31	(54,012,234)	(53,920,193)
Bulk purchases	32	(61,190,393)	(59,322,619)
Finance costs	33	(21,273,359)	(17,942,624)
Collection costs		(313,200)	(483,730)
Repairs and maintenance		(48,062,570)	(50,730,304)
Contracted services	35	(3,290,835)	(2,534,494)
Grants and subsidies paid	36	(429,056)	(156,960)
Contributions to (from) debtors impairment, employee benefit obligation and leave payment accrual		(8,837,433)	(27,619,691)
General Expenses	27	(71,690,556)	(60,497,980)
Total Expenditure		**(422,258,050)**	**(385,648,196)**
Gains on disposal of assets		107,774	1,205,262
Fair value adjustments	24	(4,101,317)	(6,773)
Surplus (deficit) for the year		**36,189,182**	**(46,117,870)**
Attributable to:			
Surplus (deficit) for the year		36,189,182	(46,117,870)

Breede Valley Municipality

Financial Statements for the year ended 30 June 2009

Statement of Changes in Net Assets

Figures in Rand	Note	Housing Development Fund	Accumulated Surplus	Total net assets
Previously stated		13,095,171	303,558,225	316,653,396
Prior period errors	42	(6,331,202)	8,701,041	2,369,839
Initial adoption of GRAP 17	42		937,738,519.0	937,738,519
Initial adoption of GRAP 12 and IAS 19	42	-	(81,631,982)	(81,631,982)
Restated balance as at 1 July 2007		**6,763,969**	**1,168,365,803**	**1,175,129,772**
Surplus (deficit) for the year		-	(46,117,870)	(46,117,870)
Other income		-	289,911	289,911
Prior period errors	42	1,526,315	(1,533,315)	(7,000)
Restated balance as at 30 June 2008		**8,290,284**	**1,121,004,529**	**1,129,294,813**
Surplus for the year		-	36,189,182	36,189,182
Other income		-	636,084	636,084
Movement for the year	13	(368,481)	368,481	-
Balance at 30 June 2009		**7,921,803**	**1,158,198,276**	**1,166,120,079**

Breede Valley Municipality

Financial Statements for the year ended 30 June 2009 (2008 Restated)

Cash Flow Statement

Figures in Rands	Note(s)	2009	2008 Restated
Cash flows from operating activities			
Cash receipts from ratepayers, government and other		462,629,629	372,041,780
Cash paid to suppliers and employees		(367,049,040)	(301,689,375)
Net cash generated from operations	37	95,580,589	70,352,405
Finance income		19,977,285	19,081,670
Finance costs		(21,273,359)	(17,942,624)
Finance income - outstanding debtors	23	(3,296,273)	(3,581,814)
Net cash inflow from operating activities		**90,989,242**	**67,909,637**
Cash flows from investing activities			
Acquisition of property, plant and equipment	4	(80,568,646)	(92,642,281)
Proceeds on disposal property, plant and equipment	4	197,774	1,277,286
Acquisition of other intangible assets	5	(207,968)	(113,850)
Increase/(decrease) in investments		48,626,860	(6,151,027)
Increase/ (decrease) in non current receivables		2,984,484	(12,195,937)
Prior year error assets acquired - non cash flow		-	4,844,191
Net cash from investing activities		**(28,967,506)**	**(104,981,618)**
Cash flows from financing activities			
Loans raised		(40,367,034)	54,748,447
Movement in Consumer deposits		71,059	148,820
Net cash from financing activities		**(40,295,975)**	**54,897,267**
Net increase in cash and cash equivalents		**21,725,761**	**17,825,286**
Cash at the beginning of the year		24,508,270	6,682,984
Cash at the end of the year	12	**46,234,031**	**24,508,270**

Breede Valley Municipality

Financial Statements for the year ended 30 June 2009 (2008 Restated)

Accounting Policies

1. Presentation of Financial Statements

Basis of Presentation

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

Presentation Currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

Going concern Assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

Comparative Information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are insignificant to the financial statements are set out below:

Trade receivables and other receivables

The municipality assesses its trade receivables and other receivables for impairment at each statement of financial position date. In determining whether an impairment deficit should be recorded in the statement of financial performance, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and other receivables is basis on a historic payment ratio per consumer.

Fair value estimation of trade receivables and payables

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at current market interest rates.

Breede Valley Municipality
Financial Statements for the year ended 30 June 2009 (2008 Restated)

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Long service awards

The present value of the long service award depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate, the salary inflation rate and pre-retirement mortality. Any changes in these assumptions will impact on the carrying amount of long service awards.

The municipality determines the appropriate discount rate. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the long service award.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Revenue - fines

The municipality province for revenue on fines not received at year end, based on the historical payment ratio of fines issued.

1.2 Investment property

Initial recognition

Investment property includes property (land or a building, or part of a building) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Breede Valley Municipality
Financial Statements for the year ended 30 June 2009 (2008 Restated)

Accounting Policies

1.2 Investment property (continued)

Subsequent measurement - revaluation model

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or deficit arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the municipality uses alternative valuation methods such as the value of the assets as per the municipality's valuation roll, used to determine rates and taxes on the specific asset.

1.3 Property, plant and equipment

Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Heritage assets, which are defined as culturally significant resources, were recorded initially at fair value. Heritage assets are not depreciated as they are regarded as having an infinite life.

Subsequent measurement

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Assets acquired in prior years for which no information is available, were recognised at deemed cost. Land is not depreciated as it is deemed to have an indefinite useful life.
Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets and after taking into account the residual value of the asset. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Item	Average useful life
Infrastructure	
• Roads and Paving	15 -30 years

Accounting Policies

1.3 Property, plant and equipment (continued)

• Pedestrian Malls	20 years
• Electricity	15 - 30 years
• Water	15 - 20 years
• Sewerage	15 - 20 years
• Housing	30 years
• Landfill sites	15 years
• Cemeteries	25 - 30 years
Community	
• Buildings	10 - 30 years
• Recreational facilities	15 - 20 years
• Security	3 - 5 years
Other assets	
• Furniture and fixtures	5 - 10 years
• Specialised property, plant and equipment	5 - 10 years
• Office equipment	5 - 10 years
• Computer hardware	3 - 5 years
• Watercraft	5 years
• Other items of plant and equipment	3 - 10 years
• Bins and containers	5 years
Transport assets	
• Other vehicles	3 -5 years
• Specialist vehicles	10 - 20 years

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or deficit arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.4 Intangible assets

Initial recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite.

Amortisation and impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average useful lives:

Computer software - 3 years

Accounting Policies

1.4 Intangible assets (continued)

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or deficit arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The municipality's loans and receivables comprise "trade and other receivables" and cash and cash equivalents in the balance sheet.

b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Loans and receivables and held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Accounting Policies

1.5 Financial instruments (continued)

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Gains and deficits arising from changes in fair value are recognised in the statement of financial performance and accumulated in equity until the asset is disposed of or determined to be impaired.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit. Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Trade and other receivables

Consumer Debtors

Consumer debtors are recognised initially at cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of consumer debtors is established when there is objective evidence that the individual will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in the statement of financial performance. When a consumer debtor is uncollectable, it is written off against the allowance account for consumer debtors. Subsequent recoveries of amounts previously written off are credited against the statement of financial performance.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment. Separate classes of loans and receivables were assessed for impairment using the following methodologies:

Housing selling schemes, Housing Personnel, Welfare, Recreational and Land sales

In respect of the above loans a provision for impairment is made on the same basis as the current portion included in Consumer debtors, being the payment rate.

Breede Valley Municipality
Financial Statements for the year ended 30 June 2009 (2008 Restated)

Accounting Policies

1.5 Financial instruments (continued)

Other debtors

Other debtors consist among others of various debtors and / or suspense accounts with debit balances such as Housing board subsidies, Government subsidies, Interest receivable, VAT, Recoverable expenses, Prepaid expenses, Insurance claims and various other debtors / suspense accounts with debit balances. These aforementioned debtors / suspense accounts are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable. Should an individual debtor or group of debtors and or suspense account be regarded as irrecoverable, a provision for impairment is made.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, which is the initial carrying amount, less repayments, plus interest.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

For the purpose of cash flow statement, cash and cash equivalents comprise cash on hand deposits held on call with banks and investments in financial instruments, net of bank overdrafts,

Borrowings (long term liabilities, consumer deposits and unspent conditional grants)

The municipality measures all financial liabilities including trade and other payables, at amortised cost using the effective interest rate method. Financial liabilities include borrowings, other non-current liabilities (excluding provisions) and trade and other payables (excluding provisions). Interest-bearing external loans and bank overdrafts are recorded net of direct issue costs. Finance charges, including premiums payable, are accounted for on an accrual basis.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or deficits reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise. Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessor

Operating lease income is recognised as an income on a straight-line basis (where applicable) over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis (where applicable) over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. Any contingent rents are expensed in the period they are incurred.

Accounting Policies

1.7 Inventories

Initial recognition

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. In general, the basis of allocating cost to inventory items is the the weighted average method.
Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Subsequent measurement

Inventories, consisting of consumable stores and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Where inventories are acquired at no cost, or for nominal consideration, their costs shall be their fair value as at the date of the acquisition. Net realisable value in the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.8 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

1.9 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

The Municipality provides retirement benefits for its employees and councilors.

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

Breede Valley Municipality
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Accounting Policies

1.9 Employee benefits (continued)

A defined benefit plan is a plan that is not a defined contribution plan. Typically defined benefit plans define an amount of benefit that an employee will receive after retirement, usually dependent on one or more factors such as age, years of service and compensation.

Defined benefit plans

The defined benefit plan of the municipality include post retirement medical aid benefits and long service awards.

For defined benefit plans the cost of providing the benefits is determined using the projected credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each benefit to determine the obligation.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or deficit exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in the statement of financial performance over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses, plus the present value of available refunds and reduction in future contributions to the plan.

1.10 Employee benefit obligations and contingencies

Employee benfit obligations are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the employee benefit obligation can be made. Employee benefit obligations are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current employee benefit obligations are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a employee benefit obligation where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a employee benefit obligations. Employee benefit obligations are not recognised for future operating deficits. The present obligation under an onerous contract is recognised and measured as a employee benefit obligation.

1.11 Government grants, transfers and donations

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Accounting Policies

1.12 Revenue recognition

Revenue is derived from a variety of sources that include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Each type of revenue is recognised upon the satisfaction of the recognition criteria as stipulated in the framework for the preparation and presentation of financial statements (GRAP 1), being, when it is probable that future economic benefits or service potential will flow to the municipality and the amount of revenue can be measured reliably.

With a cash transaction, the full amount is received in cash at the date of the transaction and as such the probability criteria have been satisfied. When it is probable that payment will be received, the revenue account in the statement of financial performance is credited and a receivable in the statement of financial position debited.

Where revenue and the underlying asset (receivable) has already been recognised based on the information available at the time of the transaction and subsequently uncertainty arises as to the recoverability of the receivable, an impairment loss, also known as a bad debt provision, is created and the provision is set off against the receivables, as a provision for doubtful debts.

Revenue from Exchange Transactions

Service charges related to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognized as revenue when invoiced or accrued to the municipality. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognized as revenue in the invoicing period.

Revenue from the sale of electricity prepaid cards is recognised when all the following conditions have been satisfied:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on consumption, using the tariffs approved from Council and are levied monthly.

Interest and rentals are recognised on a time proportion basis.

Revenue arising from the application of the approved tariffs of charges is recognised when the relevant services is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

Income from agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised on a time proportion basis.

Revenue from the sales of goods is recognised when the risk is passed to the consumer.

Revenue from the public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

Breede Valley Municipality
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Accounting Policies

1.12 Revenue recognition (continued)

Revenue from Non-exchange Transactions

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are incurred. Penalty interest on unpaid rates is recognised on a time proportion basis.

Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received. Revenue from the issuing of summonses is only recognised when notified by the public prosecutor of the amount actually collected. On year end an estimate of outstanding fines are provided on revenue, based on the historical payment rate for fines.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment are brought into use.

Revenue from the recovery of unauthorized, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognized when the recovery thereof from the responsible councilors or officials is virtually certain.

Interest income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.13 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.14 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.16 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Breede Valley Municipality
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Accounting Policies

1.17 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.18 Grants in-aid

Council annually awards grants to individuals and organisations based on merit. When making these transfers, Council does not:

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

1.19 Value Added Tax

The Council accounts for Value Added Tax on the cash basis.

Breede Valley Municipality
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Notes to the Financial Statements

Figures in Rands	2009	2008 Restated

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

IFRS 7 (AC144) Financial Instruments: Disclosures

IFRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the municipality's financial instruments, or the disclosures relating to trade and other payables.

The effective date of the standard is for years beginning on or after 01 January 2007 and is no longer exempt in terms of Government Gazette No 30013, dated 29 June 2007.

The municipality has adopted the standard for the first time in the 2009 financial statements.

IAS 36 (AC 128) Impairment of Assets

IAS 36 gives specific guidance regarding the identifying impaired assets and sets out the accounting treatment for any impairment losses (as well as possible future reversals of provious impairment losses) and the disclosure requirements.

The effective date of the standard is for years beginning on or after 01 January 2005 and is no longer exempt in terms of Government Gazette No 30013, dated 29 June 2007.

The municipality has adopted the amendment for the first time in the 2009 financial statements.

GRAP 4: The Effects of Changes in Foreign Exchange Rates

The initial application of GRAP 4 will have no impact on the financial statements.

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

Directive 5 - Determining the GRAP reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

GRAP 5: Borrowing Costs

This Standard allows entities, in the exceptionally rare cases, to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This applies when it is inappropriate to capitalise borrowing costs.

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirement of an entity directly to the nature of the expenditure to be funded i.e. capital or current. In such cases, an entity shall expense those borrowing costs related to a qualifying asset directly to the statement of financial performance. The initial application of GRAP 5 will have no impact on the financial statements as the municipality will continue to expense borrowing costs in line with previous years.

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires that the Standard will only apply to borrowing costs incurred on qualifying assets where the commencement date for capitalisation is on or after the effective date of the Standard.

Directive 5 - Determining the GRAP reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

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Financial Statements for the year ended 30 June 2009 (2008 Restated)

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 6: Consolidated and Separate Financial Statements

GRAP 6 includes specific guidance on whether control exists and on power conditions to determine whether control exits in a public sector context – public sector entities need to consider impact of this guidance to determine whether an investment should be accounted for in accordance with GRAP 6.

GRAP 6 includes specific guidance and explanatory material on the accounting of special purpose entities adopted from SIC 12 – SA specific public sector amendment. Public sector entities need to consider impact of this guidance to determine whether an investment should be accounted for in accordance with GRAP 6.

The initial application of GRAP 6 will have no impact on the financial statements.

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard for separate financial statements. For consolidated financial statements the result of initially adopting the Standard shall be recognised in the economic entity as an adjustment to the opening balance of accumulated surplus or deficit and comparative information need not be restated for the economic entity.

Directive 5 - Determining the GRAP reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

GRAP 7: Investments in Associates

An associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The investor must exercise judgement in the context of all available information to determine if it has significant influence over an investee.

An investor accounts for investments in associates in the consolidated financial statements using the equity method.

The initial application of GRAP 7 will have no impact on the financial statements.

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard for separate financial statements. Any adjustments required to financial statements as a result of initially applying the equity method shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit of the period in which the Standard is adopted. Comparative information need not be restated in these financial statements.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

GRAP 8: Interests in Joint Ventures

GRAP 8 uses a different definition for joint venture and joint control – contractual arrangement has been replaced by binding arrangement (public sector amendment) – public entities need to review current arrangements to determine whether they fall within the scope of GRAP 8 as a result of the public sector amendment.

Applying the definition of joint control as defined in this Standard may result in the identification of other entities that are also jointly controlled ventures in addition to those identified by complying with applicable legislation.

GRAP 8 incorporates guidance adopted from SIC13 on Non-monetary Contributions by ventures issued by the IASB i.e. provisions for accounting for non-monetary contributions to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity that is accounted for using either the equity method or proportionate consolidation. (Par.57-62).

Breede Valley Municipality
Financial Statements for the year ended 30 June 2009 (2008 Restated)

Notes to the Financial Statements

2. New standards and interpretations (continued)

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard for separate financial statements. Any adjustments required to financial statements as a result of initially applying the equity or proportionate consolidation method shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit of the period in which the Standard is adopted. Comparative information need not be restated in these financial statements.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

GRAP 9: Revenue from Exchange Transactions

The definition of revenue in terms of GRAP 9 incorporates the concept of service potential. Revenue is the gross inflow of economic benefits or service potential when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Entities may derive revenue from exchange or non-exchange transactions.

An exchange transaction is one in which the entity receives resources or has liabilities extinguished, and directly gives approximately equal value to the other party in exchange.

Non-exchange revenue transaction is a transaction where an entity receives value from another entity without directly giving approximately equal value in exchange.

An entity recognises revenue when it is probable that economic benefits or service potential will flow to the entity, and the entity can measure the benefits reliably.

GRAP 9 clarifies that this Standard only applies to revenue from exchange transactions.

Other than terminology difference, no affect on initial adoption of Standard on GRAP 9.

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

Directive 5 - Determining the GRAP reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

GRAP 10: Financial Reporting in Hyperinflationary Economies

GRAP 10 includes additional guidance as adopted from Financial Reporting in Hyperinflationary Economies (IFRIC 7) on Applying the Restatement Approach.

The initial application of GRAP 4 will have no impact on the financial statements.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

GRAP 11: Construction Contracts

The definition for "construction contract" was expanded by including a binding arrangement that do not take the form of a legal contract within the scope of the Standard.

Definition for "cost plus or cost based contract" has been expanded to include commercially-based contract.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The scope has been expanded to include cost based and non-commercial contracts.

GRAP 11 incorporates the concept of service potential in the condition to determine whether the outcome of a construction contract can be estimated reliably. The requirement to recognise an expected deficit on a contract immediately when it becomes probable that contract costs will exceed total contract revenue applies only to contracts in which it is intended at the inception of the contract that contract costs are to be fully recovered from the parties to that contract (par.47).

Other than the above requirements, there is no other affect on initial adoption of GRAP 11.

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

Directive 5 - Determining the GRAP reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

GRAP 12: Inventories

GRAP 12 includes the definition of current replacement costs as the cost the entity would incur to acquire the asset on the reporting date. GRAP 12 also includes the principal of service potential associated with the item that will flow to the entity as part of recognition criteria for inventories as well as the concept of goods purchased or produced for distribution at no charge or for a nominal consideration, which is specific to the public sector.

Initial measurement is required at cost (an exchange transaction) and where inventories are acquired at no cost or nominal consideration (non-exchange transaction), their cost shall be their fair value at acquisition date.

Subsequent measurement shall be at lower of cost and net realisable value except if inventories are held for:
- distribution at no charge or for a nominal charge, or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

If the above applies then subsequent measurement shall be at the lower of cost or current replacement cost.

The retail method of measurement of cost is excluded from GRAP 12.

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

Directive 5 - Determining the GRAP reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

GRAP 13: Leases

GRAP 13 incorporates additional guidance on the concept of substance and legal form of a transaction, to illustrate the difference between lease and other contracts and on operating lease incentives.

In certain circumstances, legislation may prohibit the entering into certain types of lease agreements. If the entity has contravened these legislative requirements, the entity is still required to apply the requirements of GRAP 13.

Other than the abovementioned requirements, there is no other impact on the initial adoption of GRAP 13.

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant

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Notes to the Financial Statements

2. New standards and interpretations (continued)
and Equipment, the recognition requirements of the Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 5 - Determining the GRAP reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

GRAP 14: Events after the reporting date

An event, which could be favourable or unfavourable, that occurs between the reporting date and the date the financial statements are authorised for issue.

GRAP 14 requires the date of authorisation for issue is the date on which the financial statements have received approval from management to be issued to the executive authority or municipal council.

Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting date.

An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date.

The initial application of GRAP 14 will have no impact on the financial statements.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

GRAP 16: Investment Property

Investment property includes property held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of an entity's operations.

GRAP 16 states that the use of property to provide housing as a social service does not qualify as investment property even though rentals are earned.

At initial recognition, investment property is measured at cost including transaction costs. However, where an entity acquires investment property through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

After initial recognition, entities can carry investment property at either the fair value (fair value model) or cost less accumulated depreciation and accumulated impairment (cost model).

An entity is required to disclose the fair value of investment property if the cost model is used. When an entity carries investment properties at fair value, the fair value needs to be determined at every reporting date. Gains or deficites arising from changes in fair value are included in surplus or deficit for the period in which they arise.

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

Directive 5 - Determining the GRAP reporting framework.

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Notes to the Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

GRAP 17: Property, Plant and Equipment

GRAP 17 does not require or prohibit the recognition of heritage assets but if an entity recognises heritage assets the entity needs to comply with GRAP 17 disclosure requirements.

Additional commentary has been included in to clarify the applicability of infrastructure assets to be recognised in terms of GRAP17.

Where an entity acquires an asset through a non-exchange transaction, i.e. for a nominal or no consideration, its cost is its fair value as at the date of acquisition.

The disclosure requirement for temporarily idle, fully depreciated property, plant and equipment and for property, plant and equipment that are retired from active use is required in GRAP 17 whereas IAS 16 only encourages this disclosure.

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard. However, entities that applied the transitional provisions in the Standard of GAMAP on Property, Plant and Equipment may continue to take advantage of those transitional provisions until they expire.

Directive 5 - Determining the GRAP reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

GRAP 19: Provisions, Contingent Liabilities and Contingent Assets

GRAP 19 exclude from its scope those provisions and contingent liabilities arising from social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits.

For the purpose of GRAP 19, social benefits refers to goods, services and other benefits provided in the pursuit of the social policy objective of a government. This Standard includes guidance on the accounting of these social benefits.

Outflow of resources embodying service potential also needs to be considered in when assessing if a present obligation that arises from past events exists or not.

The Standard includes accounting for obligations to make additional contributions to a fund. This is similar to the requirements of IFRIC5 (AC438).

It further includes the accounting for the changes in existing decommissioning, restoration and similar liabilities. This is similar to the requirements of IFRIC1 (AC434).

GRAP 19 give specific guidance regarding restructuring by way of transfers that will take place under a government directive and will not involve binding agreements. An obligation exists only when there is a binding transfer agreement.

Additional disclosure for each class of provision regarding reductions in the carrying amounts of provisions that result from payments or other outflows of economic benefits or service potential made during the reporting period and reductions in the carrying amounts of provisions resulting from remeasurement of the estimated future outflow of economic benefits or service potential, or from settlement of the provisions without cost to the entity.

If an external valuation is use to measure a provision the information relating to the valuation can usefully be disclosed.

Breede Valley Municipality

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Notes to the Financial Statements

2. New standards and interpretations (continued)

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard. However, where items have not been recognised as a result of transitional provisions under the Standard on Property, Plant and Equipment, the recognition requirements of the Standard on Provisions, Contingent Liabilities and Contingent Assets would not apply to such items until the transitional provisions in that Standard expire.

Directive 5 - Determining the GRAP reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

GRAP 100: Non-current Assets Held for Sale and Discontinued Operations

GRAP 100 includes in its scope the reference to non-cash generating assets. It further includes definitions relevant to the understanding of the Standard e.g. "Non-cash-generating assets" are assets other than cash-generating assets and "value in use of a non-cash-generating asset" is the present value of the asset's remaining service potential.

GRAP 100 excludes from the description of a discontinued operation reference to a subsidiary acquired exclusively with a view to resale.

The initial application of GRAP 100 will have no impact on the financial statements.

The following Directives need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires prospective application of the Standard. However, the Standard would not apply to those items that have not been recognised as a result of the transitional provisions under the Standard of Property, Plant and Equipment until the transitional provision in that Standard expires.

Directive 5 - Determining the GRAP reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2008.

The municipality has adopted the standard for the first time in the 2009 financial statements.

GRAP 101: Agriculture

GRAP 101 excludes guidance on accounting for non-exchange revenue from government grants related to a biological asset as GRAP 23 on Revenue from Non-Exchange Transactions will provide such guidance.

Recognition requirement includes the concept of the probable flow of service potential.

Biological assets acquired at no or for a nominal value shall be measured on initial recognition and at each reporting date at its fair value less estimated point-of-sale costs.

Additional disclosure is required of biological assets for which the entity's use or capacity to sell is subject to restrictions imposed by regulations that have a significant impact on their total fair value less estimated point-of-sale costs.

In the reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period it is also required to disclose increases or decreases due to transfers.

The initial application of GRAP 101 will have no impact on the financial statements.

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires any adjustments required to the previous carrying amounts of assets and net assets shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit in the period that the Standard initially adopted. Comparative information is not required to be restated on initial adoption of this Standard.